

IRS TAX TIP 2004-53

DEDUCTIBLE TAXES

Did you know that you may be able to deduct certain taxes on your federal income tax return? The IRS says you can if you file Form 1040 and itemize deductions on Schedule A. Deductions decrease the amount of income subject to taxation. There are three types of deductible non-business taxes:

1. State, local and foreign income taxes;
2. Real estate taxes; and
3. Personal property taxes.

You can deduct any estimated taxes paid to state or local governments and any prior year's state or local income tax as long as they were paid during the tax year. Generally, you can take either a deduction or a tax credit for foreign income taxes, but not for taxes paid on income that is excluded from U.S. tax.

Deductible real estate taxes are usually any state, local, or foreign taxes on real property. If a portion of your monthly mortgage payment goes into an escrow account and your lender periodically pays your real estate taxes to local governments out of this account, you can deduct only the amount actually paid during the year to the taxing authorities. Your lender will normally send you a Form 1098, "Mortgage Interest Statement," at the end of the tax year with this information.

Personal property taxes are deductible when they are based on the value of personal property, such as a boat or car. To be deductible, the tax must be charged to you on a yearly basis, even if it is collected more than once a year or less than once a year.

You can find more information on non-business deductions for taxes in IRS Publication 17, "Your Federal Income Tax," under Chapter 24, "Taxes." You may download Pub. 17 from the IRS Web site at www.irs.gov, or order it by calling toll free 1-800-TAX-FORM (1-800-829-3676).

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